

## University of Mississippi eGrove

---

State Publications

Accounting Archive

---

1936

# Examination of May, 1936

Minnesota State Board of Accountancy

Follow this and additional works at: [https://egrove.olemiss.edu/acct\\_st](https://egrove.olemiss.edu/acct_st)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

Minnesota State Board of Accountancy, "Examination of May, 1936" (1936). *State Publications*. 40.  
[https://egrove.olemiss.edu/acct\\_st/40](https://egrove.olemiss.edu/acct_st/40)

This Article is brought to you for free and open access by the Accounting Archive at eGrove. It has been accepted for inclusion in State Publications by an authorized administrator of eGrove. For more information, please contact [mmanuel@olemiss.edu](mailto:mmanuel@olemiss.edu).

# MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION OF MAY, 1936

---

WEDNESDAY, MAY 13, 1936—8:30 A.M. TO 12:00 M.

---

## Economics and Public Finance

(Answer ten questions)

---

### QUESTION 1.

The subject matter of political economy is buying and selling. Aristotle, sometimes contributing under the heading "Politics," again "Ethics," and often "Economics," gave many of our earliest definitions. For instance, he said, "By property we mean everything of which the value is measured by money." Again, referring to a proper boundary line which may be drawn between economy and morals, he said, "Whenever there is no agreement made about the service performed, those who confer a favor freely for the sake of the persons on whom they confer it, cannot complain; for the value of it is not measured by money, and no equivalent price can be paid." Referring to money, he said, "Money, therefore, as a measure, by making things commensurable, equalizes them; for there could be no commerce without exchange, no exchange without equality, and no equality without the possibility of being commensurate." Discuss these statements in the light of present-day economic theories.

### QUESTION 2.

Explain the economic theories underlying the processing taxes which were declared unconstitutional by the Supreme Court.

### QUESTION 3.

Sully, the finance minister of the French king, Henry IV, believed that "the debts of the State should be managed just like those of an individual, that is to say, paid off in the shortest practicable time." He also believed that "the ways of letting money out of the treasury are quite as important as the ways of getting it in," and was probably the first official to lay down the maxim that "specific parts of the revenue should be rigidly applied to specific parts of the expenses." Discuss these statements from the standpoint of present-day economic theories.

### QUESTION 4.

From an economic standpoint what differences would be noted in the two statements: (1) that a country was suffering from over-production, or, (2) that a country was suffering from under-consumption?

#### QUESTION 5.

Ulpian, referring to a term which can be used to express the sum of all valuable things, said, "That is property which can be bought and sold," which definition is broad enough to include commodities, services, and claims, those being the three things which can be bought and sold. Give an illustration of each of the possible types of exchange which may be made.

#### QUESTION 6.

Discuss the suggested tax on undistributed corporate earnings, presenting both sides of the question.

#### QUESTION 7.

Explain the law of Market Value.

#### QUESTION 8.

Discuss the economic theory of the present tendency in industry to decentralize, using Ford and General Motors plans as a basis for the discussion.

#### QUESTION 9.

Outline the differences between the terms "utility" and "value."

#### QUESTION 10.

Explain the differences in economic theories of the two methods of labor organization as championed by Messrs. Green and Lewis.

#### QUESTION 11.

Explain the economic theory of what is usually referred to as "reciprocal buying" as practiced in the business world.

#### QUESTION 12.

Eliminating the human element in the situation, explain the differences in the economic theories by which the Federal Government is endeavoring to care for the needs of its citizens growing out of the conditions in connection with and following the depression.

#### QUESTION 13.

What are three essential elements in production and give illustrations as to the part which each plays in the process?

#### QUESTION 14.

Enumerate the points commonly advanced for and against a general sales tax.

# MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION OF MAY, 1936

WEDNESDAY, MAY 13, 1936—1:00 P.M. TO 5:30 P.M.

## Practical Accounting

### PROBLEM 1:

The Electrical Manufacturing Company manufactures and distributes radios through jobbers. National Distributing Corp. buys radios on a cost-plus contract which contains the following provisions:

1. Electrical Manufacturing Company is to furnish its standard models under the National trade name. These are to be shipped F. O. B. factory as completed.

2. National is to be billed during the year for radios shipped at the following unit prices: Model A, \$10.00; Model B, \$20.00; Model C, \$30.00.

3. Prices are to be adjusted at the end of the year to average factory cost figured at the closest cent per unit plus a 10% allowance to cover shipping, general and administrative expense and profit. In figuring factory cost, average material and labor costs for radios completed during the year are to be used and burden is to be figured by departments based on annual departmental cost without considering labor and burden in process at the beginning of the year. Any differences disclosed as a result of your investigation are to be prorated between ending inventories and cost of sales on a proportionate basis.

You are requested to prepare:

1. A statement of profit and loss for the year ended December 31, 1935, showing detail of cost of sales. Ignore any provision for Federal income tax.

2. A statement of unit costs of production for the year ended December 31, 1935.

3. A statement of the account with National Distributing Corp. as of December 31, 1935.

The trial balance of Electrical Manufacturing Company as of December 31, 1935, follows:

<i>Account</i>	<i>Debit</i>	<i>Credit</i>
Cash .....	\$ 250,000	
Accounts receivable—general .....	275,000	
National Distributing Corp. ....	125,000	
Inventories .....	425,000	
Land, buildings and equipment .....	1,225,000	
Reserve for depreciation .....		\$ 340,000
Accounts payable .....		195,000
Capital stock .....		1,200,000
Earned surplus .....		550,000
Net sales .....		3,450,000

Cost of sales .....	2,900,000	
Burden absorbed in production .....		705,100
Cabinet-shop expense .....	231,600	
Machine-shop expense .....	227,000	
Assembly-department expense .....	220,200	
Building expense .....	100,000	
Receiving expense .....	25,638	
Warehouse and shipping expense .....	61,500	
Selling and administrative expense .....	374,162	
	<u>\$6,440,100</u>	<u>\$6,440,100</u>

Your examination discloses the following facts:

1. Building expense is to be divided on the basis of floor space as follows: cabinet shop, 30% ; assembly department, 30% ; machine shop, 25% ; receiving department, 5% ; warehouse and shipping, 5% ; and general office, 5%.

2. Inventories at December 31, 1935, as shown by the records, were as follows:

<i>Particulars</i>	<i>Material</i>	<i>Labor</i>	<i>Burden</i>	<i>Total</i>
Raw material .....	\$120,000	\$.....	\$.....	\$120,000
Work in process—				
Cabinet shop .....	6,500	6,000	7,500	20,000
Machine shop .....	7,000	6,000	12,000	25,000
Assembly department .....	20,000	12,000	13,000	45,000
Finished radios .....	85,000	55,000	75,000	215,000
Total .....	<u>\$238,500</u>	<u>\$79,000</u>	<u>\$107,500</u>	<u>\$425,000</u>

3. Finished radio accounts are analyzed as follows:

<i>Particulars</i>	<i>Model A</i>	<i>Model B</i>	<i>Model C</i>	<i>Total</i>
Production transferred from work in process:				
Material .....	\$480,000	\$ 922,400	\$279,000	\$1,681,400
Labor—				
Cabinet shop .....	44,000	136,000	40,000	220,000
Machine shop .....	20,000	75,000	15,000	110,000
Assembly department .....	72,000	156,000	52,000	280,000
Burden—				
Cabinet shop .....	55,000	168,500	50,000	273,500
Machine shop .....	40,000	148,000	30,000	218,000
Assembly department .....	54,000	119,100	39,000	212,100
	<u>\$765,000</u>	<u>\$1,725,000</u>	<u>\$505,000</u>	<u>\$2,995,000</u>
Inventory January 1 .....	10,000	90,000	20,000	120,000
	<u>\$775,000</u>	<u>\$1,815,000</u>	<u>\$525,000</u>	<u>\$3,115,000</u>
Sold .....	750,000	1,700,000	450,000	2,900,000
	<u>\$ 25,000</u>	<u>\$ 115,000</u>	<u>\$ 75,000</u>	<u>\$ 215,000</u>

4. The statistical records show the following production and sales for the year :

<i>Particulars</i>	<i>Model A</i>	<i>Model B</i>	<i>Model C</i>
Inventory January 1 .....	1,200	4,500	800
Produced .....	80,000	100,000	15,000
	<u>81,200</u>	<u>104,500</u>	<u>15,800</u>
Net sales .....	78,200	98,500	12,800
	<u>3,000</u>	<u>6,000</u>	<u>3,000</u>
Inventory December 31 .....	<u>3,000</u>	<u>6,000</u>	<u>3,000</u>

5. Inventories at January 1, 1935 were as follows :

<i>Particulars</i>	<i>Material</i>	<i>Labor</i>	<i>Burden</i>	<i>Total</i>
Raw material .....	\$ 80,000	\$.....	\$.....	\$ 80,000
Work in process—				
Cabinet shop .....	8,000	8,000	9,000	25,000
Machine shop .....	10,000	4,000	6,000	20,000
Assembly department .....	30,000	14,000	16,000	60,000
Finished radios .....	50,000	30,000	40,000	120,000
	<u>178,000</u>	<u>56,000</u>	<u>71,000</u>	<u>305,000</u>
Total .....	<u>178,000</u>	<u>56,000</u>	<u>71,000</u>	<u>305,000</u>

6. The company maintains perpetual inventories and job costs, using the first-in, first-out basis. Direct labor is charged directly to jobs and reconciled with the payroll records. Burden is charged to jobs on the basis of arbitrary percentages of direct labor which must be adjusted at the end of the year.

7. The physical inventory at December 31, 1935 shows raw material of \$115,000, a shortage of \$5,000. Work in process is taken from job tickets which are found to be correct as to quantities, and which include material and labor priced at cost. The finished radio inventory is found to be correct as to physical quantities but contains 1,000 Model C machines which had been rendered obsolete by engineering changes and which were sold in January 1936 as a job lot for \$20,000.

8. It has been decided to charge the raw-material-inventory shortage to receiving expense and prorate that expense over material placed in production during the year and the remaining raw-material inventory.

9. The account with National Distributing Corp. is analyzed from the books as follows :

Shipments—		
Model A	40,000 @ \$10.00 .....	\$ 400,000
Model B	30,000 @ 20.00 .....	600,000
Model C	10,000 @ 30.00 .....	300,000
		<u>\$1,300,000</u>
Payments on account .....		1,175,000
		<u>125,000</u>
Balance due .....		<u>125,000</u>

## PROBLEM 2:

The management of Company A has asked you to prepare analyses of the changes in the property-plant-and-equipment account and the reserve-for-depreciation account for the year 1935, as follows:

Additions  
Retirements  
Transfers  
Additions to reserves—  
    (a) Through charges to income account  
    (b) Through transfers  
Retirements charged to reserves  
Transfers from reserves.

The information is required for Company A, Company B (a subsidiary of Company A), and Companies A and B consolidated.

The companies follow the practice of making net monthly entries to the property accounts and reserves for depreciation.

For your use in obtaining the above information the following facts are available:

	<i>Company A</i>	<i>Company B</i>
Account balances:		
Property, plant and equipment—		
At December 31, 1934.....	\$180,921.37	\$39,865.42
At December 31, 1935.....	209,763.57	32,801.30
Reserve for depreciation—		
At December 31, 1934.....	78,756.29	29,753.75
At December 31, 1935.....	113,649.75	29,947.56
Depreciation expense—		
At December 31, 1935.....	39,758.29	9,547.67

On January 1, 1935, the following transfer took place from Company B to Company A:

Property .....	\$11,570.21
Reserve .....	9,178.26

In addition Company A sold a piece of land at cost to an outside interest for \$10,000.

You may assume that only fully depreciated properties were retired, and that there was no profit or loss resulting from the retirements.

## PROBLEM 3:

The Stanley Implement Company reported net taxable income for the calendar year 1934 of \$150,000. Compute the excess-profits tax payable for 1935, if any, after giving consideration to the following stated facts:

Dividends paid to its stockholders.....	\$ 80,000
Interest earned on Cook County Poor Relief Bonds.....	25,000
Loss realized on sales of Ajax Building Corporation bonds.....	42,000
Income tax for 1934.....	20,625
Dividends received .....	45,000
Value declared for its capital stock at December 31, 1933, as reported on its 1934 capital-stock tax return.....	800,000
1935 taxable net income.....	132,000

# MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION OF MAY, 1936

---

THURSDAY, MAY 14, 1936—8:30 A.M. TO 12:00 M.

---

## Commercial Law

---

### AGENCY

(Answer Three)

1. If an agent fails to exercise good faith and loyalty to his principal and is guilty of misconduct which operates to his principal's financial injury, is he responsible to his principal for the financial injury? Explain your answer.
2. (a) How does the contract or relation of principal and agent arise?  
(b) What may be done by an agent?  
(c) Distinguish between an agent and independent contractor.
3. (a) State three situations where an agency will be implied from conduct or silence of the parties.  
(b) State fully the general rule with respect to implied authority of an agent to make or endorse negotiable paper for his principal.
4. A owned a lumber business which he allowed his nephew B to carry on in B's name. B made a bargain with C, a grocer, that C furnish him with groceries and take his pay in lumber. B had the lumber delivered to C and received the groceries. B died after that. A, finding a charge on the books against C for the lumber, sues C for the price. C pleads set-off and payment by the price of the groceries. C acted in good faith, supposing B to be the owner. How should the suit be decided, and why?

### BANKRUPTCY

(Answer Three)

1. What are the primary purposes of existing bankruptcy laws?
2. What are the powers and limitations of the 48 states in regard to enactment of bankruptcy laws?
3. (a) What are the respective functions of receiver and trustee, and who appoints them?  
(b) Must they be attorneys or can a C.P.A. serve?  
(c) What documents and information must be filed with the court very soon after the petition?
4. How far is provable in bankruptcy a claim of the bankrupt's brother on a note on which he received a considerable part payment the day before the bankrupt filed his petition? Explain.



CONTRACTS  
(Answer Three)

1. (a) What are the essentials of a contract?  
(b) State the general rule with regard to contracts of minors.
2. (a) What are entire and severable contracts?  
(b) Name the types of contracts generally deemed against public policy?  
(c) What is their status?
3. (a) When is performance of contract effectual?  
(b) What is the cardinal rule with regard to interpreting contracts?  
(c) Name some additional rules.
4. M's car needed painting. He intended to have the work done immediately, and so told his neighbors in course of conversation. While M was away for a few days, P, at the public garage patronized by M, painted M's car. When M returned home, he was much pleased, but when P presented him with a reasonable bill for labor and materials, M refused to pay. What rights has P?

CORPORATIONS  
(Answer Three)

1. (a) Distinguish between public and private corporations.  
(b) Describe the limitations, if any, upon the United States Government in creating corporations.
2. (a) Is a stockholder entitled to inspect the books and accounts of the corporation? Explain your answer.  
(b) Name the circumstances in which the equity courts will interfere with the management of private corporations.
3. Briefly, what is the nature and scope of the Federal Securities Act and the Federal Securities Exchange Act?
4. Jones, president of Jones & Company, signed in blank as president a number of its stock certificates and put them in possession of Brown, its secretary, for use in making transfers. Brown fraudulently filled out these certificates for 250 shares, sealed them with the seal of the company, and sold them to Smith for \$175 a share, this being the market price of the stock. Smith knew nothing of Brown's fraud. What are the rights of Jones & Company and of Jones?

INSURANCE  
(Answer Three)

1. (a) What are co-insurers?  
(b) Distinguish between insurance agent and insurance broker.
2. (a) What is the status at law of wager or gaming insurance policies?  
(b) Are insurance policies liberally or strictly construed by the courts?
3. What is the usual authority of the insurance "adjuster," and what his relation to the insurer and insured?
4. After a valid contract of insurance has been effectuated, in what ways, if any, may the right of either party to cancel the policy accrue?

NEGOTIABLE INSTRUMENTS  
(Answer Three)

1. (a) Name some several negotiable instruments, and state how each is transferred.  
(b) What is the effect of antedating, postdating or not dating a check or other bill of exchange?

2. (a) Is negotiability essential to validity of a bill or note?  
(b) Distinguish between the terms assignment and endorsement as used in the law of bills and notes.
3. (a) What does the Negotiable Instruments Law set forth as to the rights of a holder in due course?  
(b) As to the rights of an accommodation indorser against the accommodated party, what is the legal relationship between them?
4. A surety signs a promissory note and leaves it with his principal on condition the principal shall get another to sign before he delivers it to the payee. The principal delivers it without complying with this condition. If the payee has no notice of the condition, what is the liability of the surety on the note?

### PARTNERSHIP

(Answer Three)

1. (a) Can a firm be a partner? Can a corporation be a partner? Explain your answers.  
(b) Discuss how a partnership may hold realty.
2. (a) A person may unintentionally become liable as a partner by letting it appear that he is one; but what two other main facts must exist?  
(b) How may the formation of a partnership be affected by the Statute of Frauds?
3. (a) Is a firm liable for the torts of a member? Explain your answer.  
(b) Discuss, briefly, the duties of partners to one another.
4. A, B and C became partners in a contracting business under articles fixing four years for the duration of the partnership. At the end of one year, C, being in poor health, without consulting his co-partners, sold and assigned to his brother, K, all his interest in the firm. K was a man of good character and excellent business ability, but was not personally agreeable to A. What, if anything, can A do to prevent K acting as a member of the firm?

### SALES

(Answer Three)

1. (a) What elements are essential to a contract of sale?  
(b) What is a gift and what are its essentials?  
(c) What is garnishment?
2. (a) What effect has duress or fraud on a sale?  
(b) When does concealment of material facts amount to fraud?  
(c) Can there be a sale of goods not yet in existence? Explain your answer.
3. (a) How can the right for creditor to sue on a debt barred by statute of limitations be revived or the time to sue extended?  
(b) What is the effect of breach of warranty with respect to contract of sale, and what is remedy if the sale is executed, and what is remedy if sale is executory?
4. Bailly sees an auto in a show window with a card on it advertising it for sale for \$1,000. He tells the salesman to send that car to his house and that he will pay for it when delivered. It is agreed that the car shall be delivered the following day, but delivery is not made for two weeks, when Bailly is told by the salesman that a mistake in the price of the car was made in that it was to be sold for \$1,500. Is Bailly entitled to insist on delivery of the car for \$1,000, and to sue for breach of contract on refusal?

TAXATION  
(Answer Two)

1. What are the provisions in the United States Constitution relating to taxation?
2. (a) What is the object of rules of evidence in all court or Board of Tax Appeals hearings?  
(b) What is general rule respecting the admission of evidence?
3. In June 1922 Jones subscribed for 10 shares of installment stock in the Filmore Building and Loan Association, under the customary plan of nearly all building and loan associations. This stock matured in 1932, and the amount credited to Jones in that year in excess of the amounts paid in by him has been treated as income for 1932, under the Federal income tax law. Is this correct? Explain.

MISCELLANEOUS  
(Answer Five)

1. (a) Is the United States Constitution a limitation or grant of powers?  
(b) What enables the courts to determine if a law enacted by Congress is unconstitutional?
2. (a) What is statutory law?  
(b) What is "Common Law?"  
(c) What part of our law is unwritten law?
3. (a) What is Equity? Give examples of matters adjudicated by courts of equity.  
(b) What is the function of an injunction?
4. (a) What is an easement?  
(b) What besides land is included as realty?  
(c) What is the effect of not recording a mortgage?
5. What is a nuisance, remediable by suit at law? Name examples.
6. Distinguish and briefly define libel and slander.
7. In what ways, if any, can a common carrier limit its liability in respect of shipments?
8. Generally, in what order do claims for debts against property of a person dying intestate have preference?

# MINNESOTA STATE BOARD OF ACCOUNTANCY

## EXAMINATION OF MAY, 1936

THURSDAY, MAY 14, 1936—1:00 P.M. TO 5:30 P.M.

### Practical Accounting

#### PROBLEM 1:

Prepare a statement of application of funds for the year ended December 31, 1935 from the following statements and information:

Prince Manufacturing Co.  
Comparative Balance Sheets  
December 31, 1934 and 1935

	<i>December 31</i>	
ASSETS	1934	1935
CURRENT ASSETS:		
Cash .....	\$ 8,000.00	\$ 6,000.00
Receivables—		
Accounts receivable .....	20,000.00	25,000.00
Notes receivable .....	9,000.00	6,000.00
Due from affiliated companies .....	8,500.00	7,000.00
Less—Reserve for doubtful receivables.....	2,500.00*	2,800.00*
Inventories—		
Materials and supplies .....	2,000.00	2,500.00
Raw materials .....	12,000.00	11,000.00
Goods in process .....	15,000.00	14,500.00
Finished merchandise .....	20,000.00	21,500.00
INVESTMENTS IN:		
Affiliated companies .....	4,000.00	3,500.00
Outside companies .....	52,000.00	72,000.00
FIXED ASSETS:		
Land .....	60,000.00	80,000.00
Buildings .....	90,000.00	125,000.00
Machinery and equipment .....	70,000.00	95,000.00
Less—Reserve for depreciation .....	81,000.00*	100,000.00*
DEFERRED CHARGES:		
Unamortized bond discount .....	1,000.00	3,000.00
Unexpired insurance .....	500.00	250.00
Prepaid royalties .....	5,000.00	8,500.00
Total assets .....	<u>\$293,500.00</u>	<u>\$377,950.00</u>

\*Denotes red.

#### LIABILITIES

##### CURRENT LIABILITIES:

Accounts payable .....	\$ 18,000.00	\$ 14,000.00
Notes payable .....	10,000.00	9,000.00
Bank loans .....	5,000.00	.....
Accrued taxes .....	4,000.00	2,000.00

Accrued interest .....	600.00	700.00
BONDS PAYABLE .....	100,000.00	175,000.00
NET WORTH:		
Capital stock .....	90,000.00	100,000.00
Capital surplus .....	30,000.00	49,500.00
Earned surplus .....	35,900.00	27,750.00
	<hr/>	<hr/>
Total liabilities .....	\$293,500.00	\$377,950.00
	<hr/>	<hr/>

Prince Manufacturing Co.  
Condensed Statement of Income and Expense  
and Analyses of Surplus and Other Accounts  
for the Year Ended December 31, 1935

CONDENSED STATEMENT OF INCOME AND EXPENSE:

Gross income .....	\$195,000.00
Operating and general expenses—	
Cost of sales .....	\$110,000.00
Operating expenses .....	37,700.00
Provision for taxes .....	2,000.00
Provision for depreciation on—	
Buildings .....	9,000.00
Machinery .....	10,500.00
General and administrative expenses .....	9,950.00
Provision for doubtful accounts .....	1,000.00
	<hr/>
Total .....	\$180,150.00
	<hr/>
Operating income .....	\$ 14,850.00
	<hr/>
Other expenses—	
Interest and discount on bonds .....	\$ 5,100.00
Loss on sale of capital assets .....	200.00
	<hr/>
Total .....	\$ 5,300.00
	<hr/>
Net income for the year.....	\$ 9,550.00
	<hr/>

ANALYSIS OF CAPITAL SURPLUS:

Balance December 31, 1934 .....	\$ 30,000.00
Add—Appraisal increase in land .....	20,000.00
	<hr/>
Total .....	\$ 50,000.00
Deduct—Write-down of investment in affiliated company .....	500.00
	<hr/>
Balance December 31, 1935 .....	\$ 49,500.00
	<hr/>

ANALYSIS OF EARNED SURPLUS:

Balance December 31, 1934 .....	\$ 35,900.00
Add—	
Profit on sale of investment .....	300.00
Net income for the year .....	9,550.00
	<hr/>
Total .....	\$ 45,750.00
Deduct—Dividends paid .....	18,000.00
	<hr/>

Balance December 31, 1935 ..... \$ 27,750.00

Bonds of a par value of \$100,000.00, due January 1, 1949, were issued January 1, 1929 @ \$98. Additional bonds of a par value of \$75,000.00 were issued December 31, 1935 at a discount of \$2,100.00. All bonds bear interest at the rate of 5%.

During the year 1935 the taxes for the entire years of 1933 and 1934 were paid. A sale of an investment was recorded as follows:

Cash .....	\$10,300.00	
Investments—outside companies .....		\$10,000.00
Profit on sale of investments .....		300.00

The sale of a building resulted in the following entry:

Cash .....	\$1,300.00	
Loss on sale of capital assets .....	200.00	
Reserve for depreciation .....	500.00	
Buildings .....		\$2,000.00

Accounts receivable in the amount of \$700.00 were charged against the reserve for doubtful accounts.

Capital stock was sold at par in the amount of \$10,000.00.

## PROBLEM 2:

From the following information prepare the necessary adjustments and a corrected statement of profit and loss:

Alpha Betical Company, Inc. operates a department store in a midwestern city. Inventories of certain departments—restaurant, candy, bakery, etc., are valued on the basis of cost, and have been reduced to the lower of cost or market. The inventories of the remaining sections are computed on the retail-inventory method. The inventories of the “retail departments” have been taken on the basis of selling prices appearing on the merchandise at the close of business at January 31, 1936; all of the required markdowns having been taken prior to the inventory and the inventory priced accordingly.

Several specialty departments are leased to concessionaires who supply their own merchandise and pay their own invoices. Cash received on cash sales and the collection of charge sales are deposited in the regular bank account of Alpha Betical Company, Inc. The net collections, after deduction of 10% on cash sales and 12½% on charge sales, are remitted to concessionaires monthly.

The profit-and-loss trial balance for the year ended January 31, 1936 is as follows:

	Debit	Credit
Sales .....	\$ .....	\$1,592,700.00
Returned sales .....	125,000.00	.....
Inventory—2/1/35 .....	177,000.00	.....
Purchases (net) .....	965,000.00	.....
Provision for shrinkage .....	12,000.00	.....
7% loading account .....	.....	62,090.66
Administrative expenses .....	99,000.00	.....
Occupancy expenses .....	130,000.00	.....
Publicity expenses .....	68,000.00	.....
Buying expenses .....	48,000.00	.....
Selling expenses .....	210,000.00	.....
Leased department income .....	.....	17,500.00
Net loss .....	.....	161,709.34
Total .....	<u>\$1,834,000.00</u>	<u>\$1,834,000.00</u>

Your investigation reveals that:

(1) Sales and returned-sales accounts are composed as follows:

	<i>Sales</i>	<i>Returned Sales</i>
Sales price—		
Retail departments .....	\$1,527,700.00	\$122,200.00
Cost departments .....	30,500.00	800.00
Additional charge for retailers occupation tax—		
Retail departments .....	32,500.00	1,850.00
Cost departments .....	2,000.00	150.00
Total .....	<u>\$1,592,700.00</u>	<u>\$125,000.00</u>

(2) Sales of leased departments of \$155,000 and returns of leased departments of \$14,500 are excluded from sales and returned-sales accounts.

(3) Inventory at 2/1/35 is composed as follows:

Cost departments .....	\$ 1,700.00
Retail departments (including loading of 7% on net cost) .....	175,300.00

(4) Aggregate selling prices of 2/1/35 inventory amounted to \$295,000.

(5) Purchases consisted of following—

Purchases, cost departments (net) .....	\$ 15,900.00
Purchases, retail departments (net) .....	887,009.34
7% loading on net cost of purchases, retail departments .....	62,090.66

(6) Aggregate selling prices of net purchases for retail departments amounted to \$1,640,000.00.

(7) Inventories at 1/31/36 were:

Cost departments, at lower of cost or market .....	\$ 2,100.00
Retail departments at selling prices .....	476,000.00

(8) Additional markup on purchases of \$20,000 were taken during the year.

(9) Markdowns amounted to \$58,000 and markdown cancellations to \$2,500 during the year.

(10) The reserve for loading account showed a balance of \$11,468.22 as established at January 31, 1935 to reduce inventory to cost.

(11) Reserve for inventory shrinkage account at January 31, 1936 shows a balance of \$12,000 accumulated by monthly provisions based on a percentage of sales.

### PROBLEM 3:

At December 31, 1935, the dividends in arrears on the three classes of \$100-par preferred stock of X Co. amounted to \$6,049,171.00, as follows:

<i>Class of Preferred</i>	<i>Outstanding Shares</i>	<i>Dividends in Arrears</i>
5¼% .....	924	\$15.375
6 .....	169,076	17.625
8 (callable at 110) .....	130,000	23.50

As at April 1, 1936, all preferred stockholders agreed to exchange their holdings at par plus their claims on dividends and premium to date for a new issue of 5% \$100-par preferred stock of one class which is to be listed at once on the exchange. It was further agreed that they accept the new stock at par for the par of their old holdings plus the amount of their claims to the even dollar thereof, and cash for their claims of less than one dollar.

Prepare a journal entry to record the recapitalization.

How should the company advise its stockholders to report the exchange for Federal income-tax purposes?

# MINNESOTA STATE BOARD OF ACCOUNTANCY

## EXAMINATION OF MAY, 1936

---

FRIDAY, MAY 15, 1936—8:30 A.M. TO 12:00 M.

---

### Auditing

(Answer ten questions)

---

#### QUESTION 1:

In the audit of a large industrial company, to what extent may an auditor rely on the system of internal check maintained by the company?

#### QUESTION 2:

Is an auditor responsible for revealing a lack of consistency from one year to another in the application of accounting principles by a company whose accounts he is now in the process of examining?

#### QUESTION 3:

In what way may contingent liabilities exist with respect to the following items:

- (a) Notes receivable discounted
- (b) Unfulfilled contracts
- (c) Mortgage on land, the land having been sold

#### QUESTION 4:

Do you regard it as proper to value inventories at standard cost?

#### QUESTION 5:

Outline the procedure you would recommend where you are called upon to verify by test-check approximately 50,000 accounts receivable. You may assume any situation with which you are familiar.

#### QUESTION 6:

Describe *briefly* the minimum procedure with which you would be satisfied for the audit of the 54 commercial checking accounts maintained by a manufacturing company in different sections of the country.

#### QUESTION 7:

How would you determine whether all liabilities had been recorded in the books of account?

#### QUESTION 8:

You are informed by a client that because none of numerous notes from customers are past due, no reserve for bad debts is required. What circumstances might compel you to disagree with him?



### QUESTION 9:

A company you are auditing has a number of investments in marketable securities. Outline the form of a work-sheet which the company's controller has agreed to fill in for you.

### QUESTION 10:

In general, what responsibilities for inventories do public accountants assume?

### QUESTION 11:

How would you disclose on a balance sheet dated December 31, 1935, the possession of debentures purchased by the company in anticipation of a sinking-fund installment due January 2, 1936?

### QUESTION 12:

By means of a reduction during the year in the stated value of its common no-par stock, a company has absorbed a large deficit existing at the beginning of the year. A net profit results from the year's operations. How would you state these facts on your balance sheet at the close of the year?

# MINNESOTA STATE BOARD OF ACCOUNTANCY

EXAMINATION OF MAY, 1936

---

FRIDAY, MAY 15, 1936—1:00 P.M. TO 5:00 P.M.

---

## Accounting Theory

(Answer ten questions)

---

### QUESTION 1:

How should premiums paid on bonds prematurely retired be reflected on the financial statements of a corporation?

### QUESTION 2:

Accountants as a whole have fairly well standardized their certificates. What is the purpose of this standardization?

### QUESTION 3:

What general valuation principles seem to be most favored now by accountants?

### QUESTION 4:

What significance attaches to the inventory description in the average published balance sheet?

### QUESTION 5:

What disclosure, if any, on a balance sheet would you recommend when the corporation has failed to deposit before the end of the year the usual sinking-fund installment with a debenture trustee?

### QUESTION 6:

Discuss the following quotation:

"A contingent or similar reserve created in anticipation of a possible loss by a charge to earned surplus is a division and appropriation of earned surplus, returnable thereto intact when the need for it has ceased."

### QUESTION 7:

What are the requirements of a good journal entry which you like to see carefully complied with on the books of a business enterprise?

**QUESTION 8:**

What do you understand by the term paid-in capital? Discuss its relationship to the legal concept of "stated" capital.

**QUESTION 9:**

Discuss the methods you would recommend for the proper recording of treasury stock upon its acquisition and upon its ultimate disposition through resale or retirement.

**QUESTION 10:**

What is a "liquidating" dividend from the accounting point of view?

**QUESTION 11:**

Your advice has been sought by a client on the desirability of eliminating a large portion of his fixed-asset accounts for the purpose of relieving future income of heavy depreciation charges. How would you answer him?

**QUESTION 12:**

Do you regard as material, the disclosure of sales and costs of sales in annual reports of Corporations to their stockholders?